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FISCAL IMPACT STATEMENT

LS 6710

BILL NUMBER: HB 1482

NOTE PREPARED: Jan 26, 2007

BILL AMENDED:

SUBJECT: Update of References to the Internal Revenue Code.

FIRST AUTHOR: Rep. Kuzman

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides that for taxable years beginning after December 31, 2006, references in Indiana law to the Internal Revenue Code and related regulations refer to the law and regulations in effect on January 1, 2007.

Effective Date: January 1, 2007 (retroactive).

Explanation of State Expenditures:

Explanation of State Revenues: The bill updates the reference to the Internal Revenue Code (IRC) to incorporate all the federal changes made up to January 1, 2007. The current reference to the IRC pertains to all IRC provisions amended and in effect on January 1, 2006. The update would include changes affecting tax years 2006 and after as a result of the following federal acts:

- (1) The Tax Increase Prevention and Reconciliation Act of 2005 (P. L. 109-222) signed into law May 17, 2006;
- (2) The Pension Protection Act of 2006 (P. L. 109-280) signed into law August 17, 2006;
- (3) The Tax Relief and Health Care Act of 2006 (P. L. 109-432) signed into law December 20, 2006.

A summary of the estimated revenue impact of various provisions of these federal acts is outlined in the following table. A general explanation of pertinent provisions of these federal acts follows the table. Revenue from the corporate AGI Tax is distributed to the state General Fund. The revenue from the individual AGI Tax is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%).

Provisions (Revenue Impact in \$M)	FY 2007	FY 2008	FY 2009
Tax Increase Prevention and Reconciliation Act	(3.0)	(6.6)	(6.5)
Pension Protection Act	(0.5)	(1.1)	(1.2)
Tax Relief and Health Care Act			
Deduction for higher education tuition and expenses.	(5.6)	(7.6)	0.0
Expensing environmental remediation costs.	(2.2)	(1.2)	(0.5)
Depreciation of leasehold and restaurant improvements.	(1.5)	(2.6)	(2.3)
Deduction for teacher classroom expenses.	(0.8)	(0.8)	(0.2)
Other Provisions.	(0.1)	(0.7)	(0.9)
Subtotal	(10.2)	(12.9)	(3.9)
Total Impact on State Revenue	(13.7)	(20.6)	(11.6)

The *Tax Increase Prevention and Reconciliation Act of 2005* includes the following provisions:

- (1) A temporary extension of the exclusion (for tax years 2007 and 2008) for certain income derived by controlled foreign corporations conducting banking, financing, or insurance business.
- (2) A temporary exclusion (for tax years 2006, 2007, and 2008) for certain income derived by a CFC from dividends, interest, rents, and royalties paid to the CFC from a related CFC.
- (3) An exclusion for certain settlement funds established by consent decree from 2006 to 2010 to resolve environmental clean-up claims under the federal Superfund program.
- (4) A temporary provision (for tax years 2006-2010) for certain affiliated corporations to qualify for the existing exclusion for gains from stock distributions between a corporation and an affiliated corporation, provided the entities are actively engaged in business after the distribution. This provision also eliminates the exclusion for certain other distributions between affiliated corporations.

The *Pension Protection Act of 2006* includes the following provisions:

- (1) A permanent provision indexing income limits for deductible IRA contributions by participants in employer provided retirement plans.
- (2) A temporary increase in deduction limits (for tax years 2006 and 2007) for property donations for conservation purposes.
- (3) A permanent extension of rules allowing Sec. 529 qualified higher education savings and tuition programs.

The bill also provides for the permanent extension of various provision relating to pension plans and individual retirement accounts that were first enacted in the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001. The provisions of EGTRRA are in effect through the end of 2010. The permanent

provisions of the Pension Protection Act take effect beginning in 2011. Thus, their impact would not begin until FY 2011. The precise revenue loss that may arise beginning in FY 2011 is indeterminable.

The *Tax Relief and Health Care Act of 2006* includes the following provisions:

- (1) A temporary extension of the deduction (for tax years 2006 and 2007) for higher education tuition and expenses.
- (2) A temporary extension (for tax year 2007) of the election to include combat pay in earned income for purposes of the earned income credit.
- (3) A temporary extension of the deduction (for tax years 2006 and 2007) for teacher classroom expenses.
- (4) A temporary extension of the deduction (for tax years 2006 and 2007) for certain environmental remediation expenses.
- (5) A temporary extension (for tax years 2006 and 2007) of the accelerated cost recovery period for certain leasehold and restaurant building improvements.
- (6) A temporary extension (for tax years 2006 and 2007) of the ability of taxpayers to establish medical savings accounts.
- (7) A temporary extension (for tax years 2006, 2007, and 2008) for construction of energy-efficient commercial buildings.
- (8) A permanent extension of current law provisions relating to health savings accounts (HSAs).
- (9) Permanent provisions eliminating annual contribution limits under HSAs corresponding to the taxpayer's annual health insurance deductible, establishing maximum contribution limits independent of the deductible, and providing for annual indexing of these limits.

The Act also made some temporary provisions of the Tax Increase Prevention and Reconciliation Act permanent.

Explanation of Local Revenues: The IRC update could potentially affect taxable income of individual taxpayers. The impact on counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) is indeterminable and would vary.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

Information Sources: U.S. Congress, Joint Committee on Taxation,
<http://www.house.gov/jct/tableofcnts.html>.

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